CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 16, 1997

H.R. 2644
United States-Caribbean Trade Partnership Act
As ordered reported by the House Committee on Ways and Means on October 9, 1997

SUMMARY

The Congressional Budget Office has reviewed the United States-Caribbean Trade Partnership Act, as ordered reported on October 9, 1997 by the House Committee on Ways and Means. This bill offers temporary NAFTA-parity benefits to Caribbean Basin countries in order to enhance trade between the United States and this region. The bill would also clarify the Internal Revenue Code to overrule the Schmidt Baking Company case with respect to severance pay. CBO and the Joint Committee on Taxation (JCT) estimate that the bill would increase receipts by $6 million in fiscal year 1998 and by $7 million over fiscal years 1998 through 2002. Because enacting the bill would affect receipts, pay-as-you-go procedures would apply.

The bill contains one new private-sector mandate, but does not contain any intergovernmental mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA), and therefore would not impose any costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in the following table.

By Fiscal Year, in Millions of Dollars						
	1998	1999	2000	2001	2002	1998-2002
REVENUES						
CBI NAFTA Parity	-60	-182	0	0	0	-242
Clarification of Deduction for Accrued Severance Pay	66	105	55	11	12	249

BASIS OF ESTIMATE

Revenues

Under current law, the United States offers duty-free treatment to products of 24 countries in the Caribbean region through the Caribbean Basin Initiative (CBI)--a preferential trade program that extends duty-free treatment to a wide range of products imported from beneficiary countries. The CBI excludes the following products from such treatment: textile and apparel articles, luggage and handbags, certain leather goods, footwear, tuna, petroleum, and watches and watch parts.

This bill would provide tariff and quota treatment equivalent to that accorded to products under the North American Free Trade Agreement (NAFTA) to products of Caribbean Basin partnership countries. NAFTA parity would begin May 15, 1998 and would terminate on July 15, 1999. The bill would encourage the United States Trade Representative (USTR) to seek the accession of these beneficiary countries to the NAFTA or a comparable free trade agreement at the earliest possible date, with the goal of achieving full participation by all beneficiary countries by no later than January 1, 2005.

The estimate of revenue loss is based on 1996 trade data. Tariff reductions follow the staged rate reductions that are stipulated in the NAFTA, under which the tariff treatment accorded at any time to any textile or apparel article that originates in the territory of a partnership country shall be identical to that which is accorded to a good of Mexico. This bill extends immediate duty-free and quota-free treatment to apparel articles assembled in an eligible Caribbean Basin partnership country formed from U.S. fabric, articles subjected to certain types of washing and finishing, articles knit-to-shape from yarns wholly formed in the U.S., articles made in a partnership county from fabric knit in a partnership country from yarns wholly formed in the U.S., and hand loomed, handmade, and folklore articles originating in Caribbean Basin partnership countries.

The bill also clarifies the Internal Revenue Code of 1986 with respect to deductions for accrued severance pay to reverse the result reached in the case of the Schmidt Baking Company, Inc. v. Commissioner of Internal Revenue. JCT estimates the provision will increase revenues by $66 million in 1998, and by $249 million in the years 1998 through 2000. CBO concurs with this estimate.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting receipts. The projected changes in receipts through 2007 are shown in the following table. For purposes of enforcing pay-as-you-go procedures, however, only the effects in the budget year and the succeeding four years are counted.

Pay-As-You-Go Considerations
(By Fiscal Year, in Millions of Dollars)

	1998	1999	2000	2001	2002	1998-2002
Changes in Outlays	0	0	0	0	0	0
Changes in Receipts	6	-77	55	11	12	7

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The Joint Committee on Taxation has determined that H.R. 2644 contains one new private-sector mandate, as defined in UMRA. The provision relating to clarification of deduction for accrued severance pay is estimated to increase tax revenue by $249 million over fiscal years 1998 through 2002, which is the estimated amount that the private sector will be required to spend in order to comply with this federal private sector mandate. The revenue provision will offset the budget cost of the reduced tariffs under the trade provision of the bill. The revenue provision will not impose a federal intergovernmental mandate on State, local, or tribal governments, as such governmental entities are generally exempt from federal income tax.

ESTIMATE PREPARED BY:

Alyssa Trzeszkowski

ESTIMATE APPROVED BY:

Rosemary Marcuss
Assistant Director for Tax Analysis